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ORIGINAL

August 16, 2000

RECEIVED

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 Twelfth Street, SW  
Room TWB-204  
Washington, D.C. 20554

*Re: Ex Parte Presentation in CC Docket No. 96-98*

Dear Ms. Salas:

Today Joseph Gillan and I, on behalf of the Promoting Active Competition Everywhere (PACE) Coalition, met with Jake Jennings, Kathy Farroba, Ben Childers, Jonathan Reel, and Christopher Libertelli of the Common Carrier Bureau regarding the above-referenced proceeding. During that meeting, we discussed the issue of competitive activity in MSAs beyond the top 50. PACE submits that, notwithstanding the number of NXXs that have been obtained by CLECs, there is insufficient basis to justify placing restrictions on the availability of unbundled local switching ("ULS") in those markets. A copy of the materials used during the meeting are attached to this letter.

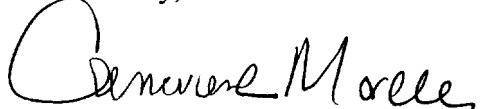
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M. Roman Salas  
August 16, 2000  
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In accordance with Section 1.1206 of the Commission's rules, an original and one copy of this letter is being filed with your office.

Sincerely,

A handwritten signature in cursive script that reads "Genevieve Morelli". The signature is written in black ink and is positioned below the word "Sincerely,".

Genevieve Morelli

cc: Jake Jennings  
Kathy Farroba  
Jonathan Reel  
Ben Childers  
Christopher Libertelli

**PACE Coalition**  
**CC Docket No. 96-98**

	<b>Originating with CLEC Customers</b>	<b>Terminating to CLEC Customers</b>	<b>Percent Terminating</b>	<b>Ratio</b>
<b>Ameritech</b>				
Illinois	230,406,298	3,434,043,219	93.7%	14.9
Indiana	33,486,451	232,605,448	87.4%	6.9
Michigan	149,582,297	2,252,559,963	93.8%	15.1
Ohio	132,709,670	2,099,921,367	94.1%	15.8
Wisconsin	75,659,736	150,381,684	66.5%	2.0
	<b>621,844,452</b>	<b>8,169,511,681</b>	<b>92.9%</b>	<b>13.1</b>
<b>BellSouth</b>				
Alabama	63,893,673	1,110,340,395	94.6%	17.4
Florida	265,245,991	5,273,593,540	95.2%	19.9
Georgia	532,408,409	3,495,631,715	86.8%	6.6
Kentucky	51,170,678	875,672,410	94.5%	17.1
Louisiana	21,740,610	677,835,212	96.9%	31.2
Mississippi	22,339,144	226,339,146	91.0%	10.1
North Carolina	174,257,351	5,758,022,517	97.1%	33.0
South Carolina	43,883,674	281,224,315	86.5%	6.4
Tennessee	241,847,269	2,297,261,067	90.5%	9.5
	<b>1,416,786,799</b>	<b>19,995,920,317</b>	<b>93.4%</b>	<b>14.1</b>
<b>Bell Atlantic</b>				
DC	38,950,156	1,031,216,782	96.4%	26.5
Delaware	15,845,480	270,174,245	94.5%	17.1
Massachusetts	180,173,215	5,672,734,746	96.9%	31.5
Maryland	139,799,216	2,140,062,782	93.9%	15.3
Maine	4,143,573	249,195,301	98.4%	60.1
New Hampshire	170,725	615,395,441	100.0%	3604.6
New Jersey	122,141,294	1,413,892,982	92.0%	11.6
New York	915,277,526	14,004,243,283	93.9%	15.3
Pennsylvania	434,118,212	4,745,383,703	91.6%	10.9
Rhode Island	15,370,462	276,749,017	94.7%	18.0
Virginia	111,007,140	1,378,625,860	92.5%	12.4
Vermont	0	88,167,668	100.0%	n/a
West Virginia	1,856,228	401,870	17.8%	0.2
	<b>1,978,853,227</b>	<b>31,886,243,680</b>	<b>94.2%</b>	<b>16.1</b>

SBC	Originating with CLEC Customers	Terminating to CLEC Customers	Percent Terminating	Ratio
Arkansas	189,051	151,386,741	99.9%	800.8
Conneticut	n/r	n/r	n/a	n/a
California	318,189,497	12,768,481,050	97.6%	40.1
Kansas	0	190,132,009	100.0%	n/a
Missouri	6,608	630,193,279	100.0%	95368.2
Oklahoma	8,274,234	709,233,618	98.8%	85.7
Texas	214,858,122	3,907,596,034	94.8%	18.2
	541,517,512	18,357,022,731	97.1%	33.9

Source: ILEC Responses To 5th Local Competition Survey  
(Data as of 6/30/99)

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

In the Matter of

GTE CORPORATION, Transferor

And

BELL ATLANTIC CORPORATION, Transferee

For Consent to Transfer of Control.

CC Docket No. 98-184

**Declaration of David J. Teece  
On behalf of GTE Corporation and Bell Atlantic Corporation**

**December 18, 1998**

35. The merger of Bell Atlantic and GTE is therefore a sound approach to position the combined company's brands for the evolution of telecommunications competition. Regional recognition as a local service provider is not sufficient—to compete successfully outside the existing territories. Bell Atlantic and GTE need to develop a nationally recognized and respected brand.

36. While a cursory analysis suggests that either Bell Atlantic or GTE would have the financial resources to build a national telecommunications brand, neither company starts with a brand that is likely to be successful on a national scale, and neither company alone has any strong product claims on which to base a brand. Building a national brand is already very expensive: AT&T spent over \$1 billion on advertising alone in 1996 (not counting the cost of creative development), and major telecommunications companies increased their advertising spend by over 20% between 1996 and 1997.<sup>27</sup>

37. The combination of Bell Atlantic's products with GTE's will provide, for the first time, a competitive nationally bundled offering that will be differentiated in the marketplace. Using this offering, the combined entity can develop a strong brand and national presence that will allow it to enter other local markets successfully.

#### F. Summary of Pro-competitive Local Exchange Benefits

38. In summary, the merger of Bell Atlantic and GTE will, for the first time, create an ILEC that will have the assets needed for success in the rapidly evolving market for local telecommunications. The companies have an excellent chance of becoming an effective out-of-region local competitor. The merger of Bell Atlantic and GTE is not the merger of two essentially similar ILECs. Rather, it is a merger of companies possessing complementary

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<sup>27</sup> Advertising Age estimates that the average yearly advertising spend of a large telecommunications company increased 22% from 1996 to 1997, from \$364 million to \$347 million. Advertising Age, ([www.adage.com/dataplace/archives/dp268.html](http://www.adage.com/dataplace/archives/dp268.html)) and ([www.adage.com/dataplace/archives/dp267.html](http://www.adage.com/dataplace/archives/dp267.html)).

capabilities and products. These complementary products can be bundled and used by Bell Atlantic and GTE to provide a differentiated local service offering likely to be compelling to customers.

39. The combination will create numerous strategic beachheads from which to establish new service areas outside of their existing territories. These beachheads are a combination of the existing GTE territories on the outskirts of major metropolitan areas and Bell Atlantic's large business customers.

40. Bell Atlantic brings an established customer base that includes many large companies. These large customers can provide the strategic beachheads for out-of-region entry. The combination of Bell Atlantic's customers with GTE's existing territories will provide the combined entity with multiple points of entry into new regions (e.g., Los Angeles, San Francisco, San Diego, Dallas-Fort Worth, Houston, Chicago, Cleveland, Indianapolis, Detroit, Miami, Orlando, Jacksonville, Seattle, and Portland, OR).

41. I find that the combination of Bell Atlantic and GTE significantly enhances the out-of-region entry prospects in twenty-one major markets spread throughout the territories of SBC, Ameritech, BellSouth and US West.<sup>28</sup> Specifically, the merger increases the expected profitability of out-of-region entry by increasing the base of "likely prospects" for the competitive local exchange operation, by increasing the prospective "take rate" of each customer, and by expanding the demand for each service when taken.

42. First, the combined entity expects that a certain proportion of the companies' pre-existing relationships with large business customers in the target out-of-region area can be converted into actual demand for telecommunications services. A simple pooling alone of the

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<sup>28</sup> Bell Atlantic and GTE plan to enter 21 out-of-region metropolitan areas within 18 months of the merger's completion. See Presentation by Charles R. Lee, Chairman and CEO, GTE Corporation, FCC Meeting on Mergers, October 22, 1998.

-- pre-existing relationships would already increase the expected out-of-region customer base. Second, by enhancing the product portfolio and brand positioning, each new customer is more likely to subscribe to each of the services in the enlarged portfolio, thereby increasing each service's "take" rate. Third, customers are likely to consume more units of the services "taken" from the combined-company, as the local services will be integrated with voice and data long-distance services provided over owned facilities (instead of resold facilities, as per Bell Atlantic's current out-of-region plans), and therefore of effectively higher quality. Fourth, the increased "take rate" and consumption reduces the minimum number of customer required for successful entry.

43. Bell Atlantic and GTE's plans to enter out-of-region in 21 metropolitan areas reflects these strategic merger synergies. The companies' strategic analysis finds that, without the merger, competitive entry is unprofitable in the vast majority of these target areas. Neither company is expected to recoup its capital and marketing investments on its own within a reasonable period of time. GTE has a relatively small base of "likely prospects," and therefore does not expect to sign up enough customers to make entry profitable. The expected profitability of Bell Atlantic's standalone entry, on the other hand, is hampered by its incomplete product portfolio. This deficiency translates to a low take rate and low demand for services that (without GTE) Bell Atlantic would only provide over resold facilities, such as out-of-region dedicated high-speed transport. Entry by the merged entity, however, is expected to be profitable in all of these target areas, as the merger favorably impacts the base of high-probability marketing prospects, and the enhanced product portfolio increases both the expected take rate and expected per customer usage of each service. The expected higher take and per customer usage rates actually reduce the number of customers required to break even on the entry. The larger base of prospects increases even further the probability that this lower break even point will be reached, to the point that entry is expected to be profitable by the combined company in all of the 21



target markets. The merger will therefore be procompetitive, sparking significant additional local competition and competitive responses, all to the benefit of consumers.

#### **IV. THE PROPOSED MERGER WILL ENHANCE COMPETITION IN LONG DISTANCE VOICE AND DATA SERVICES**

44. The transaction will also be strongly pro-competitive in the provision of long distance voice and data services. I will focus my analysis on long distance data services, as the benefits on the voice side of combining a newly created facilities-based network (GTE) with a reseller (as Bell Atlantic will be out-of-region when it obtains Sec. 271 authority) are generally well understood. On the other hand, the provision of data services is much more dominated by AT&T, MCI WorldCom, and Sprint than are voice services, as evidenced by the fact that AT&T and MCI WorldCom have repeatedly boosted data service prices over the last twelve months.<sup>29</sup> Nor have the newer networks delivered on their promise to increase competition – for example, industry observers dismiss the much touted upstart carrier Qwest Communications as “the epitome of hype.”<sup>30</sup>

45. The transaction will increase competition in long distance data provision by speeding up deployment of a new national long distance data network that can effectively compete with the Big Three facilities-based providers. The MCI WorldCom transaction has

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<sup>29</sup> For evidence of repeated price hikes by AT&T and MCI Worldcom for data services: David Rohde, “AT&T hikes prices of popular frame relay speeds,” *Network World*, November 9, 1998, “Right out of the gate, an MCI price hike,” *Network World*, November 17, 1997, “AT&T hikes prices across the board,” *Network World*, November 5, 1997, “AT&T raises private-line rates, lowers frame-relay charges,” *Network World*, November 4, 1996. The Big Three incumbents in a concentrated data market have taken advantage of soaring demand to raise prices: “If you think the Internet is backed up, wait until you go out and try to buy a T-3 circuit. You’re likely to find that high-speed pipes are suddenly hard to come by, installation intervals are lengthening, and prices continue to increase.” David Rohde, “The Great T-3 Shortage,” *Network World*, March 31, 1997.

<sup>30</sup> David Rohde, “Qwest Throws Down Pricing Gauntlet,” *Network World*, Dec. 14, 1998. The author also notes that “[Qwest currently has] little more to offer than voice-over-IP in a handful of cities . . . Qwest’s IP network is still a work in progress, and that it does not plan dial-up access or an IP virtual private network until sometime next year,” and that it “it is currently [delivering] enterprise services using a second non-pure IP network” obtained from its takeover of LCI.